Aurora Cannabis Inc.: Should Investors Buy the Dip?

Description

Aurora Cannabis Inc. (TSXV:ACB) is in the news again this week after announcing that it is acquiring Peloton Pharmaceuticals Inc., a distressed privately held cannabis firm which is currently under bankruptcy protection, for $7,000,000 in cash and stock. With the news, Aurora Cannabis stock is down 7% on close of trade on Tuesday, March 7.

Is it time to buy the dip?

The fast-growing marijuana producer was in the news in February after closing one of Canada's biggest cannabis capital-raising deal for a whopping $75 million in gross proceeds. Less than two weeks after the deal closed, Aurora Cannabis has just hinted to the market how it will use the beefed-up cash war chest in the fight for marijuana supremacy.

Peloton Pharmaceuticals is one of the late-stage medical marijuana licence applicants that has fallen on hard times at a critical moment. The small company has a 40,000-square-foot marijuana-growing facility that is estimated to be 80% complete. While it's not yet clear how much Aurora estimates it will spend to complete the facility and make it ready for production, the timeline is short enough to be compelling.

This facility, located in Pointe Claire, Quebec, received construction approval from Health Canada in 2014. Aurora expects to make it ready for inspection and probably obtain a Health Canada license to produce by the summer of 2017. This means that by December 2017, Aurora will almost have doubled its production capacity from the current 55,200 square feet.

Should Aurora be able to complete the 800,000-square-foot Aurora Sky facility at the Edmonton airport, the company will have about 895,200 square feet of marijuana growing space — ready to meet the surge in production volumes after the anticipated recreational marijuana legalization.

Word on the street is that clients are already complaining of the acute shortage of Aurora's product on the market. Aurora has seen the fastest client-base growth in the industry in 2016 and is battling to meet client demand. The recent move by Aurora to launch a second-generation mobile app for clients to place orders and process payments could further propel demand in 2017.

The Peloton deal is a strategic fit for Aurora — one that is necessary and of great contribution to productivity growth. Aurora has to move fast not to be overtaken by **Aphria Inc**. in productive capacity as the latter is planning on achieving one million square feet production space by summer 2019.

While the deal is subject to approval by several parties, including the Quebec Superior Court of Justice, minority shareholders and the TSX Venture Exchange, all Peloton creditors have already given their approval.

What then?

The 7% drop in Aurora stock is an expected market reaction as it implies further dilution to current shareholders and a use of cash. Had Peloton been a listed counter, we could have seen a surge in its market valuation.

Aurora is growing fast, and the Aurora Sky greenhouse facility under construction is touted to become the most cost-efficient method of generating needed product volume growth. However, the company still needs to keep production and operating cost growth as low as they can to generate higher margins. The company is already a low-cost producer and needs to keep things that way.

While several risks and significant uncertainty still face the industry, investors may consider buying this dip.

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Date
2025/09/07
Date Created
2017/03/10
Author
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